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SUBJECT: LITHUANIAN PRIME MINISTER'S VISION FOR NEW TERM

SUMMARY

11. (SBU) The Lithuanian parliament (Seimas) re-elected Prime Minister Algirdas Brazauskas November 25. In a speech to the Seimas November 24, Brazauskas outlined a broad vision for his new term. He promised to utilize EU funds to promote development in priority areas, such as the use, and export, of high-tech products. He committed to increasing the GOL tax collection rate, raising the minimum wage, and working to attract more greenfield investments. Brazauskas said his new government would promote much-needed reforms in health, education, and pensions, and would work to make Lithuanian agriculture more competitive. Brazauskas's emphasis on social issues, which his Labor and Peasant coalition partners will no doubt enthusiastically endorse, should promote Lithuania's development, and help ensure its continued strong economic growth. But all will be contingent on the stability of this new coalition, which is far from assured. End summary.

BACK IN THE SADDLE

12. (U) The Seimas, as expected, re-elected Algirdas Brazauskas as the country's Prime Minister November 25. Brazauskas's election came after meetings with Seimas and party leaders November 22-24. The Prime Minister now has 15 days in which to get presidential approval of his cabinet and present it, and the government's policy agenda, to the Seimas. Thus far, we are aware of the following likely cabinet nominees:

- Zigmantas Balcytis (Social Democrat), Communications;
- Algirdas Butkevicius (Social Democrat), Finance;
- Gediminas Kirkilas (Social Democrat), Defense;
- Arunas Kundrotas (Social Democrat), Environment;
- Vilija Blinkeviciute (New Union), Social Affairs;
- Antanas Valionis (New Union), Foreign Affairs;
- Zilvinas Padaiga (Labor), Health;
- Vladimiras Prudnikovas (Labor), Culture;
- Viktoras Uspaskich (Labor), Economy; and
- Kazimiera Prunskiene (Peasant Party), Agriculture.

The following three nominees have proved controversial, and may not make the final list:

- Gediminas Vaitkus (Social Democrat), Education;
- Gintautas Buzinskas (Labor), Justice; and
- Viktoras Muntianas (Labor), Interior.

Brazauskas, in a speech before the Seimas November 24, outlined his vision for the new government soon to take office.

P.M. EXPECTS OVERALL GROWTH TO CONTINUE

13. (U) The Prime Minister observed that Lithuania had realized its principal foreign policy goals, NATO and EU membership, during his previous term. Lithuania's economy had made great progress, with per capita GDP rising to 46 percent of the EU average, from 35 percent in 2000. During his just completed term, Lithuania's GDP had grown by 37 percent compared to when he took office, and he added that he anticipated GDP growth of 20-25 percent over the next four years. Lithuania, observed Brazauskas with satisfaction, counts among Europe's leaders in this area.

GOL TO PUT EU FUNDS TO WORK IN PRIORITY AREAS

14. (U) Brazauskas, observing that Lithuania will receive 2.6 billion euros (USD 3.4 billion) in EU support from 2004-2006, remarked that his government would focus on infrastructure and energy projects. Lithuania's national strategy to implement structural funds in 2004-2006 earmarks almost 39 percent of incoming EU support to improving infrastructure in the transport, energy, health,

education, research, labor and social affairs sectors. The government will try to make Lithuania more competitive, per the EU's Lisbon strategy, by using EU funds and government grants, subsidies, and credits, to increase the use of high technologies in industry beyond the current 20 percent, and to augment high tech exports by more than the 35 percent that they grew in 2003. The GOL intends to do this by creating industry parks, where scientists and businesses can work together to develop new products.

15. (U) Brazauskas said that a GOL working group is trying to help craft a definition of Lithuania as a single EU region that would accurately reflect the huge differences in unemployment and infrastructure development levels within the country. (The EU considers Lithuania to be a single region for purpose of its funding.)

P.M.: GOL WILL NOT BREACH MAASTRICHT CRITERIA

16. (U) Brazauskas suggested that the GOL might borrow from financial institutions to promote reforms in healthcare, pensions, education, and culture, since, in his view, the current fiscal deficit, at 2.5 percent of GDP, is not very high, and the national debt has decreased from 27 percent to 21 percent. The context for the Prime Minister's statement is concerns previously expressed by President Valdas Adamkus and various analysts that the country's fiscal deficit is very close to the Maastricht Criteria's three percent limit in order to qualify for European monetary union. In recent macroeconomic reviews, the IMF has stressed the importance of Lithuania not exceeding the Maastricht fiscal deficit limit.

TAX REFORM A PRIORITY

17. (SBU) Brazauskas observed that the GOL's tax yield is low relative to the pace of the economy's growth. Lithuania's tax collections amount to only 30 percent of GDP, in contrast to the EU average of 41 percent, and distinguish Lithuania for its low tax burden, second only to Ireland. The government intends to rectify this problem by cracking down on businesses that evade taxes and workers who don't pay taxes on salaries they receive in cash, and by introducing a pollution tax preferentially affecting old vehicles and a new real estate tax. At the same time, Lithuania will stand by its low corporate profit tax (15 percent), despite pressure from France and Germany to raise it, and in addition, the GOL intends to reduce personal income taxes, starting 2006, to 30 percent from the current 33 percent.

UNEMPLOYMENT DOWN, MINIMUM WAGE TO GO UP

18. (U) Brazauskas expressed satisfaction that the unemployment rate has declined by 1.2-2 percentage points during each year of his recently completed term. He regretted, however, that growth in salaries (7 percent this year) lags behind economic growth, and expressed his government's intention to increase the minimum monthly wage from LTL 500 (USD 192) to at least LTL 600 LTL (USD 230). The incoming coalition has promised to increase the average wage from LTL 1222 (USD 436) to up to LTL 1800 (USD 690).

GOL SEEKS MORE GREENFIELD INVESTMENTS

19. (U) Brazauskas expressed satisfaction that Lithuania is doing quite well in attracting investments, which grew by 75-78 percent from mid-2001 to 2004. In particular, he was pleased that re-investments constitute one third of all investments in Lithuania, in contrast to two thirds in Estonia. The World Bank, Brazauskas recalled, described Lithuania as a world leader in its investment climate. Nonetheless, the Prime Minister said much more could be done. The GOL intends to attract more greenfield investments by improving the business climate. It will do so by introducing business-friendly legislation, providing one-stop services to potential investors, and promoting the use of E-government.

NEW GOVERNMENT TO INCREASE AGRICULTURE'S COMPETITIVENESS

110. (U) Noting that 40 percent of all incoming EU funds (LTL 1.8 billion or USD 689.7 million) will go toward the agricultural sector, Brazauskas expressed his new government's intention to use these funds efficiently. The GOL intends to use the funds to make direct payments to

farmers, promote exports, and hand out subsidies to increase agricultural competitiveness and improve the efficiency of Lithuanian farming.

EDUCATIONAL REFORMS IN THE OFFING

11. (U) Brazauskas said he would strive to improve the nation's educational system. The GOL will try and ensure a quality education for students; increased opportunities for teachers to expand their professional competencies; equipment upgrades, including modern teaching aids, in classrooms; and buildings renovations. He noted that a high proportion (80 percent) of high school graduates pursue undergraduate studies.

HEALTHCARE REFORMS AS WELL

12. (U) Noting that his government had increased healthcare funding by LTL 500 million (USD 191.6 million) annually, Brazauskas promised that the new government would fund this sector with an additional LTL 340 million (USD 130.3 million) in 2004 and 2005. The healthcare sector is one of Lithuania's least reformed sectors, and the GOL intends to use its own, as well as EU, funds to modernize hospital facilities, institute energy saving programs, and increase public access to quality healthcare services. Turning his attention to the plight of the nation's 15,000 physicians, Brazauskas noted that their salaries are 15 percent below the average salary in the country, and he said that the GOL had allocated LTL 65 million (USD 24.9 million) to increase doctors' salaries in 2004. Nevertheless, he observed, this money did not reach the physicians. He urged the new management of the healthcare sector to ensure transparency in the distribution of healthcare funding. Brazauskas also remarked that the GOL intends consolidating the large number of the country's medical institutions, which would make it possible for the GOL to support them all, and would increase the efficiency of their operation.

GOL TO CONTINUE WITH PENSION REFORM

13. (U) Brazauskas noted that his government has successfully begun to implement pension reform, increasing the average pension by LTL 90 (USD 34.5) during his last term. He stated that the GOL would need an additional LTL 300 million (USD 114.9 million) for further reform in 2005, which should result in an average pension increase of LTL 650 (USD 249). Brazauskas promised that his new government would focus on the needs of the handicapped and families with children.

SECURE BORDERS

14. (U) Brazauskas said the GOL would use 136 million euros (USD 179.5 million) in EU funding in 2005-2007 to strengthen the control system along the approximately 570 miles of the EU's external border for which Lithuania is responsible. In his last term, he noted, state investment in customs, border, and tax information systems had increased five times. Brazauskas expressed confidence that Lithuania would join the Schengen space in around 2007.

COMMENT

15. (U) Brazauskas's vision for his new term, with its heavy economic emphasis, and stress on investment in infrastructure, health, education, agriculture, and an increase in salaries, should help promote Lithuania's development, and continue its strong economic growth. His Labor and Peasant coalition partners will no doubt work to ensure that the new government does not lose its sensitivity to social concerns. By strengthening these comparatively neglected areas, the Prime Minister would lay the foundation for continued strong socio-economic growth.

16. (SBU) Of course, the key to success for this ambitious agenda is the stability of the coalition between the Social Democrats and Social Liberals on one side and the neophyte Labor Party and the troublemaking Peasants' party on the other. It seems a strong possibility that the ambitions of the latter will sooner or later bring the coalition, and these ambitious plans, to an untimely end.

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